

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.
(Also Part I, Sections 832, 846; 1.832-4, 1.846-1.)

Rev. Proc. 2004-70

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2004 accident year. These factors must be used to compute discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

SEC. 2. BACKGROUND

Section 832(b)(5)(A) requires that all estimated salvage recoverable (including that which cannot be treated as an asset for state accounting purposes) be taken into account in computing the deduction for losses incurred. Under § 832(b)(5)(A), paid losses are to be reduced by salvage and reinsurance recovered during the taxable year. This amount is adjusted to reflect changes in discounted unpaid losses on nonlife insurance contracts and in unpaid losses on life insurance

contracts. An adjustment is then made to reflect any changes in discounted estimated salvage recoverable and in reinsurance recoverable.

Pursuant to § 832(b), the amount of estimated salvage is determined on a discounted basis in accordance with procedures established by the Secretary.

SEC. 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount estimated salvage recoverable under § 832.

SEC. 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for the 2004 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2004, which is 4.82 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. See Rev. Proc. 2003-18, 2003-6 I.R.B. 439, for background regarding the tables.

.02 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own historical experience under § 846.

.03 Section V of Notice 88-100, 1988-2 C.B. 439, provides a composite discount factor to be used in determining the discounted unpaid losses for accident years that are not separately reported on the NAIC Annual Statement. The tables separately provide discount factors for taxpayers who elect to use the composite method. Rev. Proc. 2002-74, 2002-51 I.R.B. 980, clarifies that for certain insurance companies subject to tax under § 831 the composite method for discounting unpaid losses set forth in Notice 88-100, section V, 1988-2 C.B. 419, is permitted but not required. This revenue procedure further provides alternative methods for computing discounted unpaid losses that are permitted for insurance companies not using the composite

method, and sets forth a procedure for insurance companies to obtain automatic consent of the Commissioner to change to one of the methods described in Rev. Proc. 2002-74.

.04 Tables.

**Tables of Factors to be Used to Discount
Salvage Recoverable With Respect to Losses Incurred in
Accident Year 2004**

(Interest rate: 4.82 percent)

Accident and Health (Other Than Disability Income or Credit Disability Insurance)

Taxpayers that do not use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2004 accident year as of the end of the 2004 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount all salvage recoverable in this line of business as of the end of the 2004 taxable year.

Auto Physical Damage

Tax Year	Discount Factors (%)
2004	96.5590
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006

taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
2004	90.6645
2005	90.3669
2006	90.1327
2007	90.6408
2008	91.1785
2009	90.5988
2010	91.8814
2011	92.9935
2012	93.2915
2013	95.4594

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Composite

Tax Year	Discount Factors (%)
2004	90.5683
2005	89.2161
2006	88.6645
2007	88.0367
2008	86.8142
2009	86.8926
2010	86.6271
2011	86.5809
2012	86.7177
2013	88.6805

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	90.6998
2015	92.7729
2016	94.8883
2017	96.9880
2018 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 91.9391 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Fidelity/Surety

Tax Year	Discount Factors (%)
2004	93.1746
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Financial Guaranty/Mortgage Guaranty

Tax Year	Discount Factors (%)
2004	94.6749
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

International (Composite)

Tax Year	Discount Factors (%)
2004	90.5683
2005	89.2161
2006	88.6645
2007	88.0367
2008	86.8142
2009	86.8926
2010	86.6271
2011	86.5809
2012	86.7177
2013	88.6805

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	90.6998
2015	92.7729
2016	94.8883
2017	96.9880
2018 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 91.9391 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Medical Malpractice -- Claims-Made

Tax Year	Discount Factors (%)
2004	85.5093
2005	80.4030
2006	85.5474
2007	82.9525
2008	84.0312
2009	77.9665
2010	88.7516
2011	91.9419
2012	95.7422
2013	97.6738

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Medical Malpractice -- Occurrence

Tax Year	Discount Factors (%)
2004	81.0996
2005	82.3752
2006	86.3279
2007	87.9623
2008	74.2782
2009	85.2215
2010	90.8308
2011	94.1660
2012	96.0748
2013	97.6738

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Miscellaneous Casualty

Tax Year	Discount Factors (%)
2004	96.0374
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Multiple Peril Lines (Homeowners/Farmowners, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))

Tax Year	Discount Factors (%)
2004	91.6039
2005	89.7492
2006	90.5601
2007	90.2475
2008	89.8022
2009	91.1562
2010	91.2128
2011	91.4205
2012	93.1099
2013	95.2655

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	97.4556
2015 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 97.4560 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Other (Including Credit)

Tax Year	Discount Factors (%)
2004	96.2479
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Other Liability -- Claims-Made

Tax Year	Discount Factors (%)
2004	90.0420
2005	80.0175
2006	65.1028
2007	87.1628
2008	83.2875
2009	82.4626
2010	89.1681
2011	92.9417
2012	89.5057
2013	91.5434

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	93.6283
2015	95.7330
2016 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 94.7277 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Other Liability -- Occurrence

Tax Year	Discount Factors (%)
2004	84.4755
2005	85.9883
2006	87.1531
2007	83.6055
2008	87.3020
2009	89.9297
2010	90.3252
2011	92.5157
2012	93.9128
2013	95.9821

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Private Passenger Auto Liability/Medical

	Discount
Tax Year	Factors (%)
2004	93.7245
2005	93.5180
2006	93.2272
2007	92.3657
2008	92.1360
2009	91.0524
2010	90.9939
2011	91.0582
2012	92.3235
2013	94.4076

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	96.4598
2015 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 96.6736 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Products Liability -- Claims-Made

Tax Year	Discount Factors (%)
2004	85.9966
2005	86.0537
2006	87.7977
2007	7.9001
2008	79.1822
2009	85.8894
2010	90.6864
2011	95.0912
2012	25.2668
2013	95.5221

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Products Liability -- Occurrence

Tax Year	Discount Factors (%)
2004	80.0842
2005	82.8436
2006	83.5123
2007	86.2999
2008	83.5735
2009	87.2379
2010	90.4562
2011	91.2267
2012	85.5469
2013	87.4740

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	89.4572
2015	91.4954
2016	93.5825
2017	95.6945
2018 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 92.6255 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Reinsurance A (Nonproportional Assumed Property)

Tax Year	Discount Factors (%)
2004	85.3031
2005	82.2450
2006	86.5640
2007	90.4906
2008	91.1611
2009	92.9938
2010	94.8571
2011	96.1798
2012	96.7980
2013	97.6738

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Reinsurance B (Nonproportional Assumed Liability)

Tax Year	Discount Factors (%)
2004	84.7610
2005	82.3424
2006	85.7505
2007	83.4780
2008	76.1754
2009	79.9172
2010	79.2255
2011	81.5908
2012	76.2736
2013	84.1702

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	86.3467
2015	88.6896
2016	91.2606
2017	94.1745
2018 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 87.7819 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Reinsurance C (Nonproportional Assumed Financial Lines)

Tax Year	Discount Factors (%)
2004	84.4808
2005	85.2596
2006	88.9070
2007	86.2016
2008	89.5553
2009	82.3408
2010	85.6757
2011	92.8358
2012	94.2578
2013	96.3087

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Glass, Burglary and Theft)

Tax Year	Discount Factors (%)
2004	93.6220
2005	95.4281

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2006 and later years	97.6738
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Taxpayers that use the composite method of Notice 88-100 should use 97.6738 percent to discount salvage recoverable as of the end of the 2006 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

Workers' Compensation

Tax Year	Discount Factors (%)
2004	85.3979
2005	86.7440
2006	87.2113
2007	87.1308
2008	86.4289
2009	87.2964
2010	87.0843
2011	87.2655
2012	88.1306
2013	90.1258

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2004 accident year.

2014	92.1703
2015	94.2492
2016	96.3002
2017 and later years	97.6738

Taxpayers that use the composite method of Notice 88-100 should use 93.3819 percent to discount salvage recoverable as of the end of the 2014 taxable year with respect to losses incurred in this line of business in 2004 and prior years.

DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Hossofsky at (202)622-8435 (not a toll free call).